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SUBJECT: VIETNAM'S TRADE IN 2006: RAPID GROWTH IN LEAD UP TO WTO
ACCESSION

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11. (SBU) Summary: According to recently-released figures from the Government of Vietnam's General Statistics Office (GSO), Vietnam's 2006 trade increased 21.6 percent from 2005, reaching USD 84.02 billion. This growth reflects Vietnam's increasingly international economic policy orientation and economic reforms undertaken as part of its WTO accession process. Led by crude oil, textiles and garments, footwear and fishery products, exports grew 22.1 percent to USD 39.6 billion. Total imports were USD 44.41 billion, a 20.1 percent rise over 2005. Total trade in services exceeded USD 10 billion in 2006, driven by increases in tourism, transportation, financial services and insurance services. According to GSO, bilateral trade with the United States was USD 8.81 billion, a 29.7 percent increase over 2005 - moving the United States from fifth to third place in total two-way trade with Vietnam. Following Vietnam's January 2007 WTO accession, these trends in growth should continue, though the country faces a number of challenges to maintain this growth over the longer term. (Note: Unless otherwise stated, all figures are from official Vietnamese statistical sources.) End Summary.

THE OVERALL TRADE PICTURE

12. (U) In 2006, Vietnam's policy orientation towards integration into the global market, coupled with economic reforms and liberalization, resulted in trade playing an increasingly significant role in Vietnam's continued economic development. Recently released figures from Vietnam's General Statistics Office (GSO) show that in the year leading up to Vietnam's World Trade Organization (WTO) accession, its trade grew 21.6 percent to reach USD 84.02 billion. Total exports rose 22.1 percent to USD 39.6 billion, while total imports were USD 44.41 billion, up 20.1 percent. Vietnam's trade deficit remained relatively stable in 2006, growing 3 percent from USD 4.65 billion in 2005 to 4.81 billion. In a further sign of the increasingly global nature of Vietnam's economy, total export turnover was equal to about 65 percent of 2006 GDP.

13. (U) China continued to be Vietnam's largest single trading partner. Vietnamese exports to China were USD 3.03 billion, a moderate 2.3 percent increase, while it imported USD 7.39 billion in 12006. Vietnam's USD 4.33 billion trade deficit with China was its second largest in 2006, behind only its USD 4.64 billion trade deficit with Singapore. Japan ranked as Vietnam's second largest trading partner at USD 9.93 billion in total trade, with USD 5.2

billion in exports and USD 4.73 billion in imports. The United States, at USD 8.81 billion, ranked third in total trade with Vietnam, up from fifth place in 2005, due in large part to a 32 percent increase in Vietnamese exports during 2006. For the fourth straight year, the United States was the largest export market for Vietnamese products. Exports to Vietnam's other primary markets, the EU and Japan, also increased by 27.8 percent, and 18.6 percent respectively. Behind China and Singapore, Vietnam's largest sources of imports were Taiwan (USD 4.8 billion), Korea (USD 3.9 billion) and Thailand (USD 3 billion).

FOREIGN INVESTED ENTERPRISES DRIVING EXPORT GROWTH

14. (U) Of the USD 39.6 billion in export revenue, foreign invested enterprises contributed USD 22.9 billion (57.7 percent of total exports), an increase of 23.2 percent. Domestic enterprises contributed USD 16.7 billion (42.3 percent of total exports), up 20.5 percent over 2005. Increased investment and new technologies helped domestic industries expand production and enhance export quality and value with an aim to narrowing the export margin with foreign invested enterprises.

HIGHER PRICES CONTINUE TO DRIVE COMMODITY EXPORT GROWTH

15. (U) Many of Vietnam's strategic commodity exports benefited from rising global prices in 2006. Crude oil remained Vietnam's top export earner, growing 12.1 percent to USD 8.26 billion as a result of the continued rise in world oil prices. Vietnam was able to achieve these gains because its average oil export price increased by 22 percent, which offset a 7.5 percent decrease in export volume. Vietnam's main crude oil export markets were the United States, Japan, Australia, Indonesia, and Malaysia. Other natural mineral

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resources also enjoyed healthy growth in 2006. Coal exports, for example, grew 65.6 percent in volume and reached a total value of USD 914 million.

16. (U) Many other traditional agricultural and commodity products (other than rice, which fell 9.5 percent in quantity and 7.2 percent in value) achieved equally solid growth in 2006. The value of rubber and coffee exports grew 58.3 percent and 49.9 percent, respectively. These significant increases are attributable to growing world prices for these goods, as the export quantities of both products remained relatively stable. Total export revenues of rubber and coffee exceeded USD 1 billion for the first time, growing the list of export products earning USD 1 billion or more per year to nine. Tea export revenues grew 13.9 percent and cashew revenues grew 4 percent. Fishery products, another key commodity export, also achieved solid growth of 23.1 percent over 2005, earning a total of USD 3.4 billion.

MANUFACTURING EXPORTS ENJOY DOUBLE-DIGIT GROWTH RATES

17. (U) Increased investment, use of new technologies, diversification of product lines and accelerated marketing and trade promotion activities contributed to the rapid growth of manufacturing exports. Key products such as footwear, wood products and electronics all achieved solid growth, earning USD 3.6 billion (16.9 percent increase), USD 1.9 billion (23.1 percent increase) and USD 1.8 billion (24 percent increase), respectively. Vietnam also increased exports in some new categories such as steel and cast iron, which grew 68 percent to USD 370 million in 2006.

18. (U) Despite facing intense competition from other countries no longer subject to quotas because of the expiration of the WTO Agreement on Textile and Cotton (ATC) in 2005, Vietnamese textile and garment exports grew 19.9 percent in 2006 - nearly double the 2005 growth rate of 10.3 percent - which equated to USD 5.8 million in export value. (Note: Following its January 11, 2007 accession to the WTO, Vietnam too is now no longer subject to quotas. End note.) Textile and garment exports to Vietnam's three primary markets achieved high growth rates in 2006. Exports to the United States

grew 21 percent to USD 3.04 billion, equivalent to 53.8 percent of Vietnam's total apparel export revenue; exports to the European Union grew 43 percent to USD 1.2 million;; and exports to Japan, a country which has never imposed quotas on Vietnam, grew 20.2 percent.

EXPORT DESTINATIONS CHANGING

¶9. (U) Vietnamese exports increasingly went to larger, industrialized and more distant markets in 2006. Export volume to Asia decreased from 50 percent to 47.3 percent. Notably, within this category exports to other ASEAN countries fell from 16.8 percent to 16.1 percent, despite favorable tariff policies between members. Although starting from a minimal baseline, exports to Africa also fell from 2.1 percent of overall volume to 1.6 percent. To offset these decreases, exports to Europe grew from 18.6 percent to 19.2 percent of total volume, export turnover to the Americas grew from 21.3 percent to 22.9 percent (of which the United States alone accounted for 19.6 percent) and exports to Australia and New Zealand grew from 8.1 percent to 8.9 percent.

PRICES AND INCREASED DEMAND GROW IMPORTS

¶10. (U) Total import turnover in 2006 was USD 44.41 billion, up 20.1 percent from 2005. The domestic sector imported USD 27.99 billion, representing 19.9 percent growth, nearly catching up with the 20.4 percent growth rate in the foreign invested sector, which imported USD 16.42 billion. The increase in total import value can be attributed to an 8.6 average growth in prices of imported goods and the increasing demand for imports needed to feed Vietnam's growing economy. The prices of critical production inputs such as fuel and common metals experienced particularly high price increases of 21 percent and 50.1 percent, respectively.

¶11. (U) Vietnam's amended Commercial Law, which became effective January 1, 2006, and regulations to guide implementation of the Commercial Law helped to remove restrictive import measures and create more favorable conditions for enterprises to import goods to expand production. Notably, consumer goods imports grew 24.4

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percent to USD 1.24 billion - a sector which will likely continue to experience solid growth as the disposable income of Vietnamese citizens continues to grow.

¶12. (U) Machinery, equipment and spare parts were Vietnam's leading import category. The import value of these products increased 24.1 percent to USD 6.6 billion, of which the foreign invested sector accounted for USD 2.3 billion, or 39.3 percent. Gasoline and fuel price increases led to a 16.4 percent surge in import value to USD 5.97 billion, despite a 3.8 percent drop in import volume. Imports of several traditional production inputs were up, including yarn (60.3 percent growth), cotton (34.1 percent growth), fabric (23.1 percent growth), plastic (26.8 percent growth) and wood and wood product accessories (16.8 percent growth). On the other side, iron imports fell 0.9 percent in value to USD 2.9 billion (the fourth largest import category) while the volume increased by 1.8 percent.

¶13. (U) Imports of garment and footwear accessories and automobiles were among the few categories that saw import volume reductions in ¶2006. Imports of garment and footwear accessories fell by 14.1 percent because Vietnam was able to produce more of the products domestically. Automobile imports (including completed and disassembled units) fell sharply by 34.7 percent. On the other hand, imports of assembled motorbikes soared 27.8 percent in volume, representing a 16 percent increase in value.

¶14. (U) Imports from Asian countries grew by 21.7 percent and accounted for 80.7 percent of total import value. Imports from Vietnam's top Asian trading partners, such as China, Japan, Singapore, Thailand and Taiwan soared 27.9 percent, 14.9 percent, 36.5 percent, 26.8 percent, and 11.4 percent, respectively. Total imports from ASEAN countries grew 32.7 percent, constituting a total of 28 percent of all imports. The value of goods purchased from

Europe and Africa fell slightly in 2006.

TRADE IN SERVICES

¶15. (U) Service exports reached USD 5.1 billion, 19.6 percent more than 2005. The major service export sectors each achieved significant growth: tourism grew at 23.9 percent, air transportation at 35.5 percent, maritime transportation at 27.5 percent and financial services at 22.7 percent. A total of 3.6 million visitors to Vietnam in 2006 contributed to tourism remaining Vietnam's top service export, accounting for 56 percent of service export revenue.

¶16. (U) Imports of services reached USD 5.12 billion, 14.3 percent more than 2005. International transport of imported goods accounted for USD 1.8 billion, or 35 percent of all service imports. Outbound travel shared 20.1 percent of the total import value, increasing 16.7 percent over 2005. Other major service imports were transportation, financial and banking services and insurance, which grew 20.1 percent.

BILATERAL TRADE WITH THE UNITED STATES

¶17. (U) GSO statistics show that total two-way trade with the United States in 2006 was USD 8.81 billion, up 29.7 percent from USD 6.80 billion in 2005. Vietnam exported USD 7.83 billion to the United States - a 32 percent increase over to 2005 - and imported USD 982 million from the United States, representing an increase of 13.7 percent over 2005 imports. In 2006, the United States ranked third in total two-way trade with Vietnam, moving from fifth place in ¶2005. It remained the largest export market for Vietnamese products. This contributed to Vietnam's USD 6.85 billion trade surplus with the United States, which grew from an already significant 2005 trade surplus of USD 5.07 billion.

¶18. (U) Textile and garment products topped the list of exports to the United States with USD 3 billion in turnover, far exceeding the amount earned through other exports. Textile and garment exports grew 17 percent, up from 5.2 percent the previous year, although Vietnam was still subject to textile and garment quotas as it was not yet a WTO member in 2006. Exports of crude oil to the United States grew by a sizable 114.9 percent to USD 1 billion, replacing fishery products as the number two export. Exports of footwear (USD 803 million) and wood products (USD 744 million) both achieved solid growth rates of 31.4 percent and 31.2 percent, respectively, maintaining the third and the fourth ranking in 2006. Despite

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anti-dumping duties on certain goods, fishery products (USD 665 million) ranked as the fifth top earning export, with a 5.3 percent increase over 2005.

¶19. (U) Imports of machinery and equipment (USD 226 million) remained on top of Vietnam's imports from the United States and increased by 25 percent over 2005. Plastic materials (USD 86 million), the number two import from the United States, rose 43.2 percent. Imports of wood-product materials (USD 60 million) grew 51.9 percent, moving it into the top five import categories from the United States. Textile and garment-related imports, however, saw a reverse trend: while Vietnam's overall imports of cotton, yarn and fabric grew, imports of those items from the United States fell 4.3 percent, 40.7 percent and 10.9 percent respectively.

COMMENT

¶20. (SBU) Vietnam's 21.6 percent increase in trade volume in large part reflects Vietnam's growing international engagement in tandem with the economic reforms undertaken to join the WTO. Barring a major downturn in global prices in Vietnam's key export sectors, Vietnam aims to continue increase its exports, particularly as it benefits from being the WTO's newest member.

¶21. (SBU) Notwithstanding overall optimism, for Vietnam to sustain

its growth in trade, it still faces some critical challenges. First, continued diversification of its export products away from reliance on commodity goods such as crude oil, whose export growth is dependent upon global market prices, to higher value-added products will help. Second, Vietnam needs to implement its WTO commitments fully, particularly with respect to trading rights for foreign invested enterprises, in order to establish a fair and transparent environment conducive to creating increased trade and investment opportunities. Third, Vietnam has to improve human resource development, education and training to enhance its status as an attractive labor market. The GVN is now seeking international assistance and know-how to help reform its education system to keep pace of changing demands on its labor force, its success in this endeavor will be paramount.

122. (SBU) Fourth, given real infrastructure restraints, particularly its port capacity, Vietnam should accelerate efforts to expand its infrastructure capacity in order to continue to attract new investment and increase trade. Fifth, strengthening anti-corruption, transparency and the rule of law would enhance Vietnam's competitiveness as a destination for foreign investment. How the GVN implements its equitization policies will have a major impact on this process. Finally, over time additional financial and banking reforms, if implemented effectively, will help to attract more investment, and ensure that it is effectively and efficiently directed to high-return sectors. End Comment.

MARINE